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STATE FOR EAP/CM

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TAGS: [PREL](#) [PGOV](#) [HK](#)
SUBJECT: HONG KONG RELUCTANT TO EXTEND SFI PILOT

Classified By: Acting Consul General Chris Marut, Reason 1.4 b/d

¶1. (C) Summary: In negotiations with the Department of Homeland Security's Secure Freight Initiative (SFI) team, Hong Kong officials said they are not interested in extending the SFI pilot program beyond its agreed April 30, 2009 term. Hong Kong officials cited minimal evidence of trade facilitation benefits and worried that the local trade would object to anything that potentially increases shipping costs and slows down the flow of goods through the port. DHS SFI staff offered to continue to provide statistical information on trade facilitation benefits and regular updates on prospects for amendments to the SAFE Port Act. End Summary.

¶2. (C) Secure Freight Initiative, Director of 100 Percent Scanning Todd Horton led a Department of Homeland Security delegation that included the U.S. Consulate General Hong Kong Customs and Border Protection attach and economic unit chief for discussions December 12 with Hong Kong Trade and Industry (HK TID) on the Secure Freight Initiative pilot project in Hong Kong. The Hong Kong government delegation was led by HK TID Deputy Director General Vivian Lau and included representatives from Hong Kong's Commerce and Economic Development Bureau (CEDB), Customs and Excise (HKCE) Department, and Transport and Housing Bureau.

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Praise for Hong Kong's SFI Implementation
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¶3. (C) Horton began by recapping recent SFI-related events, including the release of first SFI report analyzing the program's implementation in June 2008. He noted that DHS is advocating a new strategy for the SFI program that focuses on Strategic Trade Corridors. Twenty ports account for 48 percent of all shipments to the U.S., said Horton, and the volume of cargo passing through Hong Kong makes it an important partner in SFI implementation. According to the most recent statistics, 220 alarms have been triggered since the beginning of the SFI pilot project in Hong Kong's Modern Terminal, approximately 1.6 percent of all containers passing through the system. All of these have been successfully resolved by HKCE officials without requiring secondary exams in Hong Kong. No weapons of mass destruction or WMD components have been discovered. Horton praised HKCE officials for their efficiency and professionalism.

¶4. (C) Horton acknowledged that the SFI program has not expanded to new ports in several months as DHS considered ways to meet the congressionally-mandated goal of 100 percent scanning of all U.S.-bound cargo by 2012. The Government Accountability Office (GAO) is currently working on a report

on SFI implementation that is expected to be delivered to Congress early in 2009. Horton expressed optimism that the GAO report would endorse DHS' Strategic Trade Corridor strategy.

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Obstacles to SFI Expansion

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15. (C) Implementation of the SFI program has encountered some obstacles. In the Port of Southampton, United Kingdom, the U.K. Royal Customs decided not to support the continuation of the program once the pilot period had expired. SFI in Southampton continues to operate but is fully staffed by U.S. Customs and Border Patrol officers. DDG Lau noted that the government of Singapore had also declined to participate in the SFI program. Horton confirmed that negotiations on Singapore's SFI program have been temporarily suspended due to the excessive demands of the terminal operator in Singapore.

16. (C) DDG Lau asked how the new DHS Strategic Trade Corridor strategy is consistent with the goal of 100 percent scanning. Horton and his team responded that the new strategy is an implementation guideline that would deploy SFI equipment first at sites where it could be most useful. DHS will suggest ten additional ports for SFI implementation in the first quarter of 2009. Continuing the project in Hong Kong demonstrates that DHS is serious about achieving full implementation of the SFI mandate.

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Hong Kong Finds SFI Hard to Justify

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17. (C) DDG Lau noted that the statistics provided by DHS' SFI office suggested there is little trade facilitation benefit for Hong Kong containers that pass through the SFI system. 0.093 percent of SFI-scanned containers are reinspected, while 0.098 percent of unscanned containers are reinspected. Horton replied that many explanations could account for the small difference, including the success of the Customs-Trade Partnership Against Terrorism (C-TPAT) program in Hong Kong and the Pearl River Delta. As much of Hong Kong's cargo originates from C-TPAT tier three signatories, it is less likely to be reinspected for security reasons at the U.S. port of entry. Horton noted that other ports are definitely seeing trade facilitation benefits. U.S.-bound cargo from SFI-participant Port of Qassim in Pakistan, for example, is up seven percent since implementation of the program.

18. (C) Referring to the statistics on container reinspection at U.S. ports of entry, Lau said it would be very difficult for Hong Kong to continue to participate in the SFI program when the pilot program expires in April 2009, absent clear evidence of trade facilitation benefits. Horton responded that DHS would like to be able to continue to test SFI in another terminal in Hong Kong with a new system that is more robust than the current non-intrusive inspection and radiation portal monitor system, adding that Hong Kong terminal operators have expressed interest in participating in an expanded trial. The data obtained from the non-intrusive inspection system is a particular asset to customs officials seeking to enforce export controls, he added.

19. (C) Horton also noted that the U.S. government had not previously pressed for expansion of the program in response to Hong Kong government sensitivities about the September 2008 legislative council elections. He warned that Hong Kong's withdrawal from the SFI program could lead the new U.S. Congress to doubt DHS' commitment to 100 percent scanning. Additional Congressional oversight could reduce DHS' scope for interpretation of the 100 percent scanning mandate, said Horton -- potentially leading to less implementation flexibility and increased demands on terminal operators.

¶10. (C) Hong Kong CEDB Permanent Secretary Wendy Cheung said Hong Kong industry has raised concerns about the impact of the SFI program on the efficiency and competitiveness of Hong Kong ports. Without concrete benefits to the trade, it is difficult to convince them of the need for these measures, she said. Lau added that industry players are aware of SFI's difficulties in Southampton, Pusan, South Korea (where truck drivers have expressed reservations about the safety of the system), and Singapore. If the SFI pilot program continues beyond April 2009, the Hong Kong government will have to convince the industry that it is worth doing. Since Hong Kong cargo is not considered high-risk, it is difficult in the current economic climate to justify programs that reduce efficiency or raise costs, said Lau.

¶11. (C) Horton replied that the SFI process is seamless for traders. The current project proves that containers are not slowed in any way by passing through the system. He re-emphasized the value of container scans to enforcement officials seeking to stem smuggling or identify export control violations and suggested the additional data points provided are a valuable complement to any risk-based enforcement strategy. Horton offered to continue to provide statistics to determine the trade facilitation benefits of the SFI pilot project for Hong Kong cargo and update the Hong Kong government on the status of any proposed amendments to the SAFE Ports Act. CEDB's Cheung asked Horton to inform DHS that Hong Kong is currently unwilling to extend the SFI pilot program when it expires in April 2009.

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